

LEROY COMMUNITY LIBRARY

LEROY, MICHIGAN

YEAR ENDED JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LeRoy Community Library	County Osceola
Audit Date 6/30/04	Opinion Date 9/28/04	Date Accountant Report Submitted to State: 12/13/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Accounting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 12/13/04	

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

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September 28, 2004

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
LeRoy Community Library
LeRoy, Michigan

We have audited the accompanying basic financial statements of LeRoy Community Library, LeRoy, Michigan, as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the LeRoy Community Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of LeRoy Community Library as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages iii through vii and 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole except as noted in the preceding paragraph.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

LeRoy Community Library, a Public Library located in LeRoy, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the LeRoy Community Library's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004. In future years, comparative information will be provided.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are new and being shown for the first time for June 30, 2004 for the LeRoy Community Library. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30, 2004:

Assets	
Current Assets	\$ 154,422
Non Current Assets	
Capital Assets	\$ 102,898
Less Accumulated Depreciation	28,268
Total Non Current Assets	\$ 74,630
Total Assets	\$ 229,052
Liabilities	
Current Liabilities	\$ 1,368
Net Assets	
Invested in Capital Assets	\$ 74,630
Unrestricted	153,054
Total Net Assets	\$ 227,684
Total Liabilities and Net Assets	\$ 229,052

D. Analysis of Financial Position

During the fiscal year ended June 30, 2004, the Library's net assets decreased by \$17,033. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2004, \$4,897 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2004, \$1,500 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$3,397 for the fiscal year ended June 30, 2004.

E. Results of Operations

For the fiscal year ended June 30, 2004, the results of operations were:

	<u>Amount</u>	<u>% of Total</u>
General Revenues		
State Grants	\$ 30,152	89.49%
Interest and Rents	1,638	4.86%
Other Revenues	<u>1,347</u>	<u>4.00%</u>
Total General Revenues	\$ <u>33,137</u>	<u>98.35%</u>
Program Revenues		
Charges for Services	\$ <u>556</u>	<u>1.65%</u>
Total Revenues	\$ <u>33,693</u>	<u>100.00%</u>
Expenses		
Recreation and Culture	\$ <u>50,726</u>	<u>100.00%</u>
Change in Net Assets	\$ <u>(17,033)</u>	

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

F. Analysis of Significant Revenues

Significant revenues are discussed below:

State Grants

The majority of the state sources are comprised of penal fines received from Osceola County. The Library collected \$26,720 in penal fines for the year ended June 30, 2004.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on June 30.

For the year ended June 30, 2004, the Library amended the general fund budget in March 2004. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 36,875	\$ 26,160	\$ 33,693	\$ 7,533
Total Expenditures	48,842	55,172	47,329	7,843

The variance in the Total Revenue Original Budget to Final Budget was a decrease of \$10,715. The variance in the Total Expenditures Original Budget to Final Budget was an increase of \$6,330.

H. Capital Asset

1. Capital Assets

At June 30, 2004, the Library had \$102,898 in capital assets, including buildings, computer and office equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$4,897 bringing the accumulated depreciation to \$28,268 as of June 30, 2004.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from penal fines; any impairment to these funding sources would greatly impact the future of the Library.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the LeRoy Community Library, 104 W. Gilbert Street, PO Box 110, LeRoy, MI 49655.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

CURRENT ASSETS

Money Market Account	\$ 28,136
Savings Account	12,361
Certificates of Deposit	<u>113,925</u>

Total Current Assets	<u>\$ 154,422</u>
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NON CURRENT ASSETS

Capital Assets	\$ 102,898
Less Accumulated Depreciation	<u>28,268</u>

Total Non Current Assets	<u>\$ 74,630</u>
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TOTAL ASSETS	<u><u>\$ 229,052</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 528
Payroll Taxes Payable	<u>840</u>

Total Current Liabilities	<u>\$ 1,368</u>
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NET ASSETS

Invested in Capital Assets	\$ 74,630
Unrestricted	<u>153,054</u>

Total Net Assets	<u>\$ 227,684</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 229,052</u></u>
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The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>			
Recreation and Culture	\$ 50,726	\$ 556	\$ (50,170)
<u>GENERAL REVENUES</u>			
State Grants			\$ 30,152
Interest and Rents			1,638
Other Revenues			1,347
Total General Revenues			\$ 33,137
Change in Net Assets			\$ (17,033)
<u>NET ASSETS</u> - Beginning of Year			244,717
<u>NET ASSETS</u> - End of Year			\$ 227,684

The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

GENERAL FUND
BALANCE SHEET

JUNE 30, 2004

ASSETS

Cash	
Money Market Account	\$ 28,136
Savings Account	12,361
Certificates of Deposit	<u>113,925</u>
TOTAL ASSETS	<u>\$ 154,422</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 528
Payroll Taxes Payable	<u>840</u>
Total Liabilities	<u>\$ 1,368</u>

FUND BALANCE

Unreserved	
Designated for Scholarships	\$ 12,361
Undesignated	<u>140,693</u>
Total Fund Balance	<u>153,054</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 154,422</u>

The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

JUNE 30, 2004

Total General Fund Balance	\$ 153,054
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not
reported in the funds

The cost of the capital assets is
Accumulated depreciation is

\$ 102,898	
(28,268)	74,630
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NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u>\$ 227,684</u>

The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2004

REVENUES

State Grants	
Library State Aid	\$ 3,432
Library Penal Fines	
Osceola County	26,720
Interest and Rents	
Interest Earnings	1,638
Other Revenues	
Book Sales	325
Copy Charges	231
Memorials/donations	1,154
Miscellaneous	193
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Total Revenues	\$ 33,693

EXPENDITURES

Recreation and Culture	
Personal Services	
Librarians	\$ 17,936
Board Members	1,100
Fringe Benefits	
Social Security and Medicare	1,372
Worker's Compensation	292
Supplies	
Books and Magazines	13,660
Office and Other Supplies	1,894
Purchased Services	
Professional Fees	85
Insurance and Bonds	170
Travel and Education	181
Utilities	2,911
Repair and Maintenance	996
Dues	1,716
Contract Labor	72
Miscellaneous	3,444

The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2004

Capital Outlay	1,500
Equipment	<u>\$ 47,329</u>
Total Expenditures	
	\$ (13,636)
Net Change in Fund Balance	
	<u>166,690</u>
<u>FUND BALANCE</u> - Beginning of Year	
	<u>\$ 153,054</u>
<u>FUND BALANCE</u> - End of Year	

The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

Net change in Fund Balance General Fund	\$ (13,636)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(4,897)	
Capital Outlay	1,500	(3,397)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (17,033)</u>
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The notes to the financial statements are an integral part of this statement.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the LeRoy Community Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Library's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The LeRoy Community Library provides library services to the residents of the LeRoy, Michigan area from its facility located in LeRoy, Michigan. The Library is a legally established district library pursuant to Section 6 of Act 24 of the Public Acts of 1989. The participating municipalities include Cedar Township, LeRoy Township, Lincoln Township, Rose Lake Township, and the Village of LeRoy. The District Library Board is made up of six appointed board members. Under the criteria established by generally accepted accounting principles, the Library has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

For the fiscal year 2004, the Library adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library only has a governmental fund called the General Fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The Library's investment policy states that the LeRoy Community Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Certificates of Deposit
- (b) Savings Accounts
- (c) Money Market Accounts

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	10 years
Building	50 years
Furniture and Fixtures	10 years
Computer and Office Equipment	5 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$350 and large purchases of books.

3. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are not accrued in governmental funds (using the modified accrual basis of accounting). The Library does not allow employees to accrue these benefits beyond the end of the fiscal year. Also, upon termination of employment the employee will not be paid for any benefits accrued during the fiscal year.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The board of directors of the Library annually prepares an operating budget. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted in May 2003, or as amended by the Library board in March, 2004.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON GENERAL FUND

A. Deposits and Investments

At year end, the carrying amount of the government's deposits was \$154,422 and the bank balance was \$156,963 of which \$151,079 was covered by Federal Depository Insurance and \$5,884 was uninsured and uncollateralized.

B. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets:				
Books	\$ 11,602	0	0	\$ 11,602
Building	65,363	0	0	65,363
Furniture and Fixtures	20,024	1,500	0	21,524
Computer and Office Equipment	4,409	0	0	4,409
Subtotal	\$ 101,398	\$ 1,500	\$ 0	\$ 102,898
Accumulated depreciation	(23,371)	(4,897)	0	(28,268)
Net capital assets	\$ 78,027	\$ (3,397)	\$ 0	\$ 74,630

Depreciation expense for the fiscal year ended June 30, 2004 amounted to \$4,897.

LEROY COMMUNITY LIBRARY
LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

C. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters. The Library participates in a pool of municipalities within the State of Michigan for workers' compensation insurance. The Library pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or previous three prior years.

The Library continued to carry insurance for other risks of loss, including fidelity bonds, liability, property and casualty, crime, and errors and omissions.

LEROY PUBLIC LIBRARY

LEROY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
<u>REVENUES</u>				
State Grants	\$ 35,800	\$ 25,800	\$ 30,152	\$ 4,352
Interest and Rents	225	110	1,638	1,528
Other Revenues	850	250	1,903	1,653
Total Revenues	\$ 36,875	\$ 26,160	\$ 33,693	\$ 7,533
<u>EXPENDITURES</u>				
Recreation and Culture				
Personal Services	\$ 19,500	\$ 22,500	\$ 19,036	\$ 3,464
Fringe Benefits	2,200	2,000	1,664	336
Supplies	16,900	18,000	15,554	2,446
Other Services and Charges	10,242	12,672	9,575	3,097
Capital Outlay	0	0	1,500	(1,500)
Total Expenditures	\$ 48,842	\$ 55,172	\$ 47,329	\$ 7,843
Net Change in Fund Balance	\$ (11,967)	\$ (29,012)	\$ (13,636)	\$ 15,376
<u>FUND BALANCE</u> - Beginning of Year	135,386	135,386	166,690	31,304
<u>FUND BALANCE</u> - End of Year	\$ 123,419	\$ 106,374	\$ 153,054	\$ 46,680

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CERTIFIED PUBLIC ACCOUNTANTS

September 28, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Library Board
LeRoy Community Library
LeRoy, Michigan

Dear Members of the Board:

We have completed our audit of the financial statements of the LeRoy Community Library and are communicating to you our findings and recommendations for the year ended June 30, 2004.

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for the Library financial statements. For the Library, these changes were implemented in the June 30, 2004 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that reports financial information on a Library-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Library.

We commend the Library for their diligent efforts and assistance necessary to implement these rather radical changes as required by this new reporting pronouncement.

Budgeting

The cash disbursements for one activity exceeded the budget. In the future, the budget should be amended before the disbursements are made. All budget amendments should be a resolution of the board and recorded in the minutes.

Conclusion

We wish to take this opportunity to thank the Board for the confidence they have expressed in our firm by awarding us this engagement. We hope these comments and recommendations will be viewed as constructive. Overall, we believe that the hard work and determination demonstrated by the Board and employees of the Library have enabled the Library to be successful, and will continue to make it successful well into the future.

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September 28, 2004

LETTER OF REPORTABLE CONDITIONS

To the Library Board
LeRoy Community Library
LeRoy, Michigan

In planning and performing our audit of the basic financial statements of the LeRoy Community Library for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Library makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.